

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

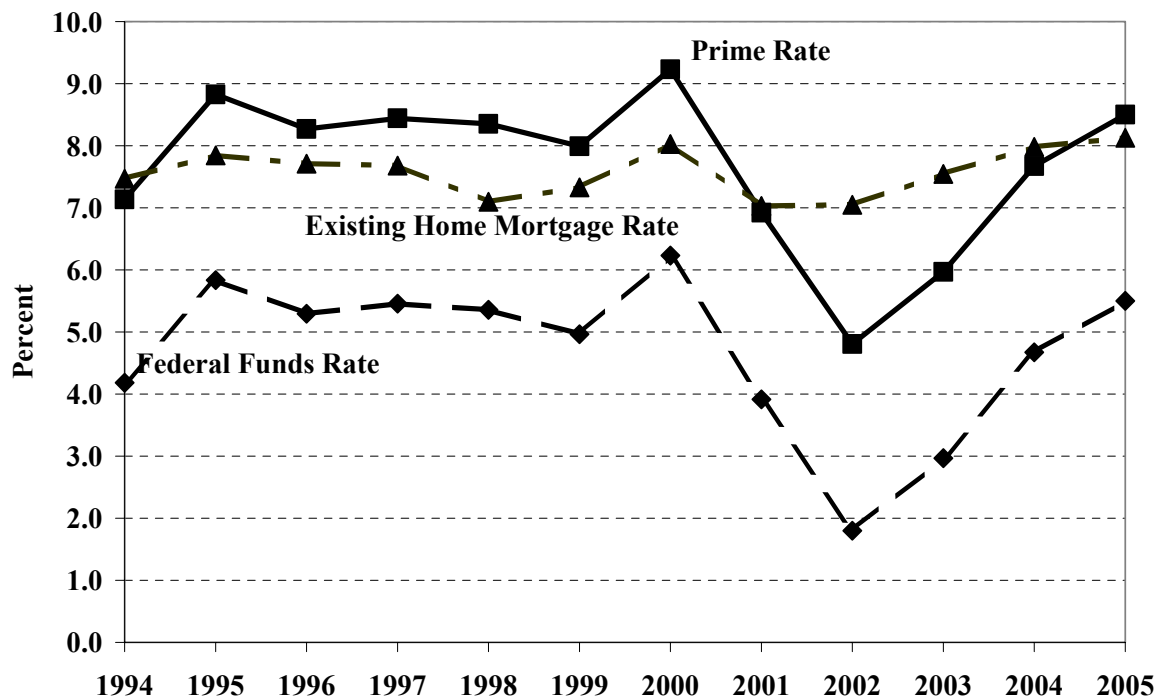
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- Forecast 2002-2005
- Searching for Value in the U.S. Stock Market
- Alternative Forecasts

Selected Interest Rates



Source: DRI*WEFA

**IDAHO
ECONOMIC
FORECAST
2002 - 2005**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho. These challenges include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the July 2002 DRI*WEFA baseline forecast of the U.S. economy. The April 2002 *Idaho Economic Forecast* is based on the March 2002 DRI*WEFA baseline national forecast.

The recent histories and forecasts for three key interest rates are charted in the cover graph of this forecast. Perhaps most interestingly, the recent history of the federal funds rate traces different policies by the Federal Reserve. The increase from 1999 through 2000 represents the controversial preemptive tightening by the central bank. The Federal Reserve dropped rates beginning in 2001 in an attempt to prevent a recession. For most of this year, the Federal Reserve has adopted a wait-and-see, which explains why the rate is relatively flat in 2002. Beginning later this year, the Federal Reserve is expected to raise rates gradually.

FEATURE

It would be an understatement to call the stock market's performance over the last couple of years disappointing. After peaking in the spring of 2000, the stock market has fallen precipitously. By the spring of this year, it has lost so much value it is about where it was four years ago. Is this a correction or a death spiral? Kevin J. Lansing provides interesting insights into the market's recent behavior in his article titled, "Searching for Value in the U.S. Stock Market." Mr. Lansing is a Senior Economist with the Federal Reserve Bank of San Francisco.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI*WEFA examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1986 to 2005 and for every quarter from 2000 through 2005. The solution of the Idaho Economic Model (IEM) for this forecast begins with the first quarter of 2002.

Descriptions of the DRI*WEFA U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The employment data that appear in this publication are based on monthly estimates provided by the Idaho Department of Labor. It has finalized employment numbers for 2001 and provided preliminary estimates for the first three months of this year. All of these data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM). These current data show that Idaho nonfarm employment in the fourth quarter of 2002 was nearly 3,000 lower (0.5%) than had been forecast in April 2002. The preliminary 2002 employment estimates show Idaho nonfarm employment was almost 5,100 lower (0.9%) than had been previously forecasted.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the fourth quarter of 2001. In addition to the

2001 fourth quarter income estimates, the historical Idaho quarterly income estimates from the first quarter of 1998 through the third quarter of 2001 were revised. The BEA will release its next round of Idaho personal income estimates in late July 2002.

The revised U.S. Census Bureau estimates for 1991 through 1999 for Idaho have been incorporated into this *Idaho Economic Forecast*. This was necessary because the 2000 census showed that Idaho's population had grown faster than had been estimated. The U.S. Census Bureau revised its annual estimates to reflect this faster growth.

The *Idaho Economic Forecast* is available on the Internet at http://www.state.id.us/dfm/econ_pub.html. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at http://www.state.id.us/dfm/econ_pub.htm.

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